

Message Text

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E.O. 11652: GDS
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SUBJECT: EGYPT'S ECONOMIC PLIGHT: DRASTIC MEASURES BEING CONSIDERED

TEHRAN FOR AMBASSADOR EILTS ONLY

REF: CAIRO 9933

1. SUMMARY: EGYPTIANS ARE SHOWING INCREASING AWARENESS THAT MAJOR FINANCIAL CRISIS MAY TAKE PLACE THIS YEAR. AMONG MEASURES THAT ARE BEING CONSIDERED TO DEAL WITH PROBLEM THERE IS A VERY SENSITIVE ONE - UTILIZING PORTION OF COMMERCIAL BANK HARD CURRENCY COVER - WHICH IMF THINKS MIGHT HELP FILL THE GAP, BUT WHICH COULD ALSO CREATE ADDITIONAL PROBLEMS FOR GOE. END SUMMARY.

2. ON STRICTLY PERSONAL BASIS, IMF REP DICKIE HAS PROVIDED EMBASSY WITH INFORMATION PRESENTED BELOW ON MEASURES THAT GOE IS CONSIDERING AS MEANS TO OVERCOME FINANCIAL CRISIS WHICH IS QUITE LIKELY TO OCCUR IN THE REMAINDER OF THIS YEAR. DICKIE, WHO SAYS HE HAS NOT ADVISED IMF HEADQUARTERS OF PROPOSALS, IS EXTREMELY NERVOUS THAT HIS ROLE IN FORMULATING ONE OF THEM COULD BECOME KNOWN. EMBASSY THEREFORE REQUESTS THAT THIS INFORMATION BE VERY CLOSELY HELD, PARTICULARLY WITH RESPECT TO IMF OFFICIALS.

3. GOE LEADERSHIP HAS EVIDENTLY BECOME FULLY AWARE OF MAGNITUDE

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OF IMPENDING CRISIS. OUR CONVERSATIONS WITH VARIOUS OFFICIALS

INDICATE THAT THIS FACT WAS ONE REASON THAT SADAT MADE PUBLIC THE FIGURE OF \$12 BILLION NEEDED FROM ARABS OVER FIVE YEARS, AND ALSO \$1 BILLION REQUEST FOR ASSISTANCE NOW WHICH WAS CONTAINED IN LETTER FROM ABU ISMAIL TO ARAB FINANCE MINISTERS. DICKIE CONFIRMS THIS IMPRESSION AND SAYS THAT HE WAS APPROACHED BY MINFIN ABU ISMAIL AND MINECON SHAFEI WITH REQUEST FOR ASSISTANCE IN FORMULATING PLAN TO COPE WITH ANTICIPATED \$1.2 BILLION SHORTFALL (ASSUMING RECEIPT OF \$225 MILLION FROM UAE AND QATAR). DRACONIAN NATURE OF ONE OF THE STEPS, WHICH ARE REPORTEDLY TO BE CONSIDERED BY HIGHER PLANNING COMMITTEE IN VERY NEAR FUTURE, TENDS TO CONFIRM INDICATIONS THAT EGYPTIANS ARE FINALLY WORRIED.

4. PLAN CONSISTS OF FOUR STEPS. DUE TO FACT THAT EMBOFF WAS GIVEN ONLY VERY BRIEF GLIMPSE OF PAPER THAT DICKIE WILL PROVIDE GOE, WE ARE NOT CERTAIN OF THE EXACT MAGNITUDE OF NUMBERS INVOLVED, BUT BELIEVE DATA WHICH FOLLOWS TO BE FAIRLY CLOSE.

(A) REDUCTION OF IMPORTS. DICKIE HAS PROPOSED CUT OF \$360 MILLION IN IMPORTS PLANNED FOR REMAINING MONTHS OF CY 76. THIS WOULD PLACE TOTAL IMPORTS FOR YEAR AT APPROXIMATELY SAME LEVEL AS FOR 75. ON BASIS INFORMATION HE HAS GATHERED ON STOCKPILES OF CONSUMER GOODS - WHICH ARE LOW - DICKIE FEELS THAT CUTS WILL OF NECESSITY HAVE TO COME IN CATEGORY OF INTERMEDIATE GOODS. WHILE THIS WOULD IMPACT UNFAVORABLY ON EXPANSION OF DOMESTIC PRODUCTION, IT WOULD AVOID POSSIBILITY OF ADVERSELY AFFECTING PUBLIC, SOMETHING GOE IS TRYING DESPERATELY TO AVOID.

(B) CONCLUSION OF THE IMF STANDBY AGREEMENT BY NOVEMBER, I.E., IMMEDIATELY AFTER ELECTIONS. ACCORDING TO DICKIE'S CALCULATIONS, THIS WOULD MAKE AVAILABLE APPROXIMATELY \$60 MILLION FROM FUND AS FIRST TRANCHE, AS WELL AS \$50 MILLION FROM CHASE, PRIOR TO END OF YEAR.

(C) REFUNDING OF \$250 MILLION OF CURRENT BANKING FACILITIES ON MEDIUM-TERM BASIS WITH GUARANTEES FROM ARABS. THIS EXERCISE, AS FORMULATED BY DICKIE, WOULD HAVE SOME BASIC ELEMENTS AS EARLIER EFFORTS ALONG SAME LINES.

(D) A "ONE-TIME" UTILIZATION OF HARD CURRENCY RESOURCES HELD BY COMMERCIAL BANKS TO COVER MOST PRESSING FOREIGN DEBTS, I.E.,

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BANKING FACILITIES. DICKIE SAYS THAT EGYPTIAN COMMERCIAL BANKS HAVE BEEN RETAINING ALL OF THEIR HARD CURRENCY RESOURCES, AND PRESENTLY HAVE ALMOST 100 PERCENT COVER. ON BASIS HIS FIGURES, LE 630 MILLION IN FOREIGN EXCHANGE IS BEING HELD, OF WHICH DICKIE SUGGESTS \$360 MILLION SHOULD BE TAKEN BY GOE IN EXCHANGE FOR GOVERNMENT PAPER CONTAINING A COMMITMENT TO REPAY.

5. AS DEPARTMENT WILL NOTE, LAST ITEM ABOVE IS ONLY ONE THAT

REPRESENTS SIGNIFICANT DEPARTURE FROM PREVIOUSLY PROPOSED SALVAGE OPERATIONS. DICKIE FEARS THAT HIS PRESENTATION HAS MADE EGYPTIANS SUDDENLY AWARE OF LARGE AND HITHERTO UNTAPPED SOURCE OF HARD CURRENCY, AND THAT URGENCY OF PRESENT CRISIS MAY RESULT IN INTEMPERATE AND HEAVY-HANDED RAID ON COMMERCIAL BANKS IN EXCESS OF WHAT COULD BE CONSIDERED AS REASONABLE FINANCIAL MOVE. HE IS URGING RESTRAINT, HE REPORTS, BUT FEELS THAT HIS SUGGESTION MAY HAVE CREATED POTENTIALLY SERIOUS PROBLEM IN TERMS OF CREDIBILITY AND CREDITABILITY OF GOE IF TOO LARGE A RAID IS MADE ON BANKING SECTOR.

6. COMMENT: WHILE IT IS DIFFICULT TO BELIEVE THAT EGYPTIAN FINANCIAL CIRCLES WERE UNAWARE OF EXISTENCE OF SIZE OF COMMERCIAL BANK HARD CURRENCY RESERVES, IT MUST BE ADMITTED AS A POSSIBILITY - AT LEAST AT UPPER LEVELS. EMBASSY SHARES DICKIE'S CONCERN, AND IN PARTICULAR REACTION THAT MIGHT RESULT IF INFORMATION ON WHAT GOE IS CONSIDERING DOING WERE TO LEAK. U.S. WOULD ALSO HAVE A MORE DIRECT INTEREST SINCE, AS DEPARTMENT WILL RECALL, JOINT VENTURE BANKS, INCLUDING THOSE WITH U.S. PARTNERS, ARE EGYPTIAN BANKS BY LAW. THEIR ASSETS, THEREFORE, WOULD THEORETICALLY ALSO BECOME AVAILABLE TO GOE SHOULD DECISION BE REACHED TO TAP THAT RESOURCE.

7. OF GREATER OVERALL IMPORTANCE, HOWEVER, IS POTENTIAL IMPACT ON BANKING CIRCLES, ESPECIALLY AMONG BANKS THAT HAVE MAJOR EXPOSURE IN EGYPT, IF IDEA BECOMES KNOWN - OR IF STEP IS TAKEN. NATURE OF CURRENT CRISIS, WHICH IS REFLECTION OF CHANGE IN ARAB FINANCIAL COMMITMENT TO EGYPT - ITSELF ONE OF FACTORS THAT HAS THUS FAR AVERTED COLLAPSE, MAKES ANY GESTURE THAT MIGHT REDUCE CONFIDENCE IN EGYPT'S BANKS A HIGHLY RISKY MOVE.
MATTHEWS

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